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WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
memo w/attach.	From Blumenthal to The President (8 pp.) re: Cargo Preference Legislation/ enclosed in Hutcheson to Eizenstat 7/9/77	3/24/77	A

FILE LOCATION
Carter Presidential Papers- Staff Offices, Office of the Staff Sec. -Pres. Hand writing File 7/9/77 [1] Box 36

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THE PRESIDENT'S SCHEDULE

Saturday - July 9, 1977

9:00	Dr. Zbigniew Brzezinski - The Oval Office.
9:30 (2 hrs.)	Meeting with the Governors on Energy. (Mr. Jack Watson) - Room 450, EOB.
11:30 (Approx.)	Statement/White House Press Room.

THE WHITE HOUSE
WASHINGTON

July 9, 1977

Stu Eizenstat -

The attached was returned in the President's outbox. It is forwarded to you for your information.

Rick Hutcheson

Re: Cargo Preference Decision

To Stu -
I didn't do a
good job
J

THE WHITE HOUSE

WASHINGTON

July 8, 1977

NOT FOR CIRCULATION

MEMORANDUM FOR: THE PRESIDENT

FROM: THE PRESIDENT HAS SEEN. STU EIZENSTAT Stu

SUBJECT: Cargo Preference Decision

As the attached EPG documents returned from your desk indicate, the problem of treaty violations was noted in all three of the EPG's substantive memos on cargo preference which you received. The issue was not as prominently highlighted by EPG as it should have been, however.

I believe that this example illustrates the need to have a more coherent decision process for matters EPG takes upon itself. Because EPG wished to take primary responsibility for cargo preference, there were three memos - mine, Kreps' and Blumenthal's. Each memo emphasized certain aspects of the question and summarized the arguments of others. At various times the staffing of the issue to the agencies and senior staff was handled by OMB, EPG and Rick. The result was too much redundant paper going to you, in which some of the key questions were buried.

As to the involvement of the State Department, their views were incorporated into the EPG's memorandum to you. Dr. Brzezinski and NSC (Christine Dodson of their staff) received all memos -- EPG's, mine and Secretary Kreps', and commented on each. Please see Rick Hutcheson's memo to me on this point. The NSC indicated as to each that its views were expressed in the EPG memo. They had full opportunity for comment on three occasions. They (and State) were also present at several EPG meetings chaired by Secretary Blumenthal at which cargo preference was discussed.

In the future, I believe that one memo prepared in conjunction with the Cabinet agencies involved will best serve your needs. Cabinet members and senior staff should always be able to comment on these memos, either verbally or by memo. They should generally not be preparing separate discussion memos on interagency questions such as this.

Regarding the question of treaty violations: all of the trade treaties that cargo preference would violate contain provisions allowing us to terminate them if we feel our "national security" is involved. When the Ford Administration opposed cargo preference, the State Department argued that our national security was not involved. Having made this case to our allies, State is understandably reluctant to reverse itself. I believe, however, that the basic national security justification for a strong merchant marine can easily be applied to cargo preference, and that we can credibly justify our decision in the important area of oil transportation.

Other than Rick's memo, you need only read the portions of the pages that are tabbed.

THE WHITE HOUSE
WASHINGTON

April 6, 1977

Stu Eizenstat -

The attached was returned in the President's outbox and is forwarded to you for your information and appropriate action.

Rick Hutcheson

cc: Charlie Schultze
Landon Butler

Re: Status of Cargo Preference/
Call to Jesse Calhoun

xc Cary Johnston

Good analysis

J

THE WHITE HOUSE

WASHINGTON

April 4, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Status of Cargo Preference/ Call to Jesse Calhoun

I. Status of Cargo Preference

Following your directions to me regarding cargo preference I have, in close coordination with Landon:

1) Met with Paul Hall, President of the Seafarers International Union, together with the AFL-CIO legislative and policy staff, to get their input.

2) Arranged a meeting with Congressman Murphy on April 6. Congessman Murphy, at my request, has agreed to postpone hearings on HR 1037, the cargo preference bill, pending our development of a comprehensive cargo policy.

3) Arranged a meeting with Senate staffers to Magnuson, Long, Hollings, Jackson, and Inouye for April 6. The Senate is moving forward with oil pollution tanker safety legislation separately from any consideration of cargo preference.

4) Asked the Commerce Department to arrange meetings with company and labor representatives of the maritime industry. My staff is also meeting with these groups. We have informed the Maritime Engineers Benevolent Association (MEBA) that we hope they will participate in this process.

The purpose of all these meetings is to explore alternatives to cargo preference as means of building up the U.S. merchant marine. We have explicitly said in arranging these meetings that we have not ruled out cargo preference but are evaluating a broader range of options.

II. Call to Jesse Calhoun

Calhoun is the union leader most committed to cargo preference, and may be the least flexible in accepting any other policy. This is especially so given his dissatisfaction with the reappointment of Maritime Administrator Robert Blackwell, and his general feeling that the Administration has been unresponsive to his advice given his assistance during the campaign.

In discussing these issues I recommend that you:

1) Reaffirm your commitment to a stronger merchant marine.

2) Outline your reservations concerning cargo preference--without indicating you have ruled it out (see attached Schultze memo).

3) Ask his help in developing a broader national cargo policy that will insure a stronger U.S. merchant marine.

I would advise against agreeing to a private meeting, or to the designation of a single top staff member as the MEBA's contact in the White House.

Attached: An economic analysis of cargo preference from Charles Schultze and the EPG decision memo on cargo preference together with your response.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

April 4, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: CHARLIE SCHULTZE CLS

SUBJECT: Talking points for your conversation with Jesse Calhoun, Marine Engineer's Benevolent Association

Stu Eizenstat is providing you with a memo on the political issues surrounding oil-cargo preference legislation. The following are talking points on the economic impact of H.R. 1037, the primary oil-cargo preference proposal before the Congress.

H.R. 1037 would require that 20 percent of U.S. oil imports be carried on U.S. Flag vessels immediately. The share would increase to 30 percent by 1980. The economic problems with this bill are:

1. It is literally impossible to meet the requirements now. According to the Department of Commerce:

   - In 1977 available U.S. flag tankers will be able to carry only 2 percent of U.S. oil imports;

   - A crash program to build new tankers could raise the U.S. Flag share to 7-12 percent in 1980 and probably to the 30 percent level by 1985. Some 40 to 90 new 225,000 ton supertankers' equivalents would be needed (depending on the amount of oil imports).

2. U.S. tankers cost more than twice as much to build as foreign tankers. And there is now a glut of foreign tanker capacity. Vessels can be bought at half the price of new foreign construction.

Then why not US purchases? (vs building new)

3. The cost of imported oil would be raised significantly. At 8 million barrels a day of imports, the added cost to consumers would be \$500 - \$600 million a year.

4. The crash program to build ships is likely to raise shipbuilding costs considerably, not only for the tankers themselves, but also indirectly for the Navy.

5. Reversal of U.S. Policy - It would, for the first time in the United States, extend cargo preference to commercial cargoes and counter the long-standing U.S. policy of fostering competition in international shipping.

6. Violation of Treaties-It would be inconsistent with existing obligations of the U.S which require nondiscriminatory national or most-favored nation treatment to the vessels of more than 30 foreign countries with whom we have bilateral commercial treaties. Accordingly, to take this action might justify suspension or denunciation of these treaties by other parties and thus endanger certain legal protections and privileges afforded U.S. business abroad under those treaties.

cc: Jack Waton
Stu Eizenstat

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

MEMORANDUM TO THE PRESIDENT

FROM: LANDON BUTLER

DATE: APRIL 5, 1977

SUBJECT: CALL TO JESSE CALHOUN

1. Jesse Calhoun is incensed because Secretary Kreps intends to reappoint Robert Blackwell as Assistant Secretary of Commerce for Maritime Affairs. Blackwell is seen by Calhoun as a supporter of the Maritime Academy at King's Point, which Calhoun thinks is in competition with the Calhoun School (Calhoun's own training school for marine engineers). Calhoun's opposition to Blackwell verges on being a personal vendetta.

   Blackwell has the support of all other Maritime Trade Unions, and of the industry as well. Secretary Kreps feels strongly that Blackwell is the best person to handle such difficult issues as cargo preference.

2. Stu is working closely with Paul Hall, President of the Maritime Trades Department of the AFL-CIO to find an alternative to cargo preference legislation. If you call or meet with Calhoun, it would be helpful if you could urge him to work through the Maritime Trades Department, rather than deal directly with us. The AFL-CIO also prefers that Calhoun work through their structure.

   Calhoun's union, MEBA, is the smallest of several AFL-CIO Maritime Unions, all of which have a strong interest in cargo preference. Working with any of the unions on this issue is difficult enough; working with each of them separately will be almost impossible.

xc: Bill

THE WHITE HOUSE

WASHINGTON

June 28, 1977

Secretary Blumenthal
The Vice President
Stu Eizenstat
Frank Moore
Jack Watson
Z. Brzezinski
Landon Butler
Bert Lance
Charlie Schultze

Re: Cargo Preference

The attached was returned in the President's outbox and is forwarded to you for your information and appropriate action.

Rick Hutcheson

cc: Ernie Preeg

THE WHITE HOUSE

WASHINGTON

June 23, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
BILL JOHNSTON

SUBJECT: Cargo Preference

BACKGROUND

At your instruction we have consulted extensively with industry and Congressional leaders trying to develop a mutually satisfactory strategy for rebuilding the American merchant marine. Unfortunately, our efforts to find a generally acceptable compromise to cargo preference have not been successful.

The maritime industry, and its many Congressional supporters, supported some of our alternative proposals. But every group we talked to felt that our proposals were not acceptable substitutes for cargo preference. They were willing to accept sharp cutbacks in percentages and timetables if we would agree to some form of cargo preference. But they rejected all other compromises citing their understanding of your campaign promise. Within the last week both Senator Long personally, and Congressman Murphy by letter, have emphatically restated this to me.

On the other side many members of our Administration, including Charlie Schultze, Mike Blumenthal and Dick Cooper, feel that no version of cargo preference is acceptable. They feel that the principles involved - our commitments to free trade and to the fight against inflation - cannot be breached. They argue that the economic costs of cargo preference outweigh its benefits. Moreover, they feel that even a modest cargo preference bill entails a dangerous precedent that may later be extended by Congress, or imitated by other nations.

OPTIONS

The attached decision memos from Secretaries Blumenthal and Kreps lay out two views of the alternatives. The EPG paper concludes that the options are:

1) Cargo preference with the reserved share cut to 25% and with foreign built ships eligible for 2/5 of this share.

2) A larger operating subsidy program for which all kinds of ships would be eligible, and for which the eligibility rules would be significantly relaxed.

3) Extension of the Jones Act to the Virgin Islands for oil.

Option 2 was developed by CEA, EPG, Treasury and OMB staffs after an EPG discussion in which many EPG members expressed dissatisfaction with both cargo preference and other options.

Secretary Kreps feels that Option 2 should be rejected because it is unlikely to benefit the U.S. merchant marine and is certain to be offensive to most of the industry. She doubts that Option 3 is viable either, because it involves relatively few ships and is almost certain to be enacted with or without our support. She believes that the real choices are:

1) Cargo preference as in 1 above.

2) A package of alternatives that would include:
   a) The Jones Act extension as in Option 3.
   b) Repeal of the U.S. income tax deferrals available to foreign subsidiaries of U.S. shipping companies. (Treasury opposes this)
   c) A legislative initiative to expand our dry bulk fleet. (already drafted)
   d) A commitment to seek additional bilateral shipping agreements on a case by case basis.

ANALYSIS

We agree with Secretary Kreps that from a political standpoint, Option 2 in the Blumenthal memo does not merit serious consideration. The proposed subsidy is a potentially expensive on-budget item with uncertain benefits. And because the proposal would tend to benefit the large oil companies, the maritime community would view it as an insult rather than as a substitute. As Secretary Kreps observes, a simple rejection of cargo preference is politically preferable to Option 2.

In our view the options boil down to accepting or rejecting cargo preference. If you reject it, a package of alternatives should be offered, even though these will not be considered acceptable by cargo preference proponents.

Accordingly we would modify the two Kreps options as follows:

Less than 10%, as Strauss indicates

1) <u>Cargo Preference with severely reduced percentages:</u> We feel that the percentage of oil imports reserved for our ships should be cut to 8-12%, with half of this available to foreign built ships reregistered under the American flag. This proposal would substantially increase the current proportion of oil moving on American ships and create some sea going and shipyard jobs, at a minimal cost to the public (estimated at $75-100 million). Both Congressman Murphy and Senator Long have indicated that a proposal along these lines would be satisfactory. It would, of course, still set the precedents considered to be undesirable.

Ambassador Strauss has worked closely with us in developing this alternative. At his instance we have met with a representative of the unions who has indicated that such a severely reduced percentage would be acceptable because it would, at least, recognize the concept of cargo preference.

Thus, we could accurately state that we have fulfilled our campaign commitment (see attached campaign statements) but at a reasonable cost.

As under the current version of H.R. 1037, our proposal for vastly reduced cargo preference percentages would <u>not</u> add to maritime subsidy costs, since preference ships would not be eligible for any subsidies.

2) <u>A set of alternatives including a-d in the Kreps Option 2 above and:</u>

e) <u>Increased income taxes on both American and foreign owned foreign flag fleets. This would involve changing</u> the definition of income sources so that half of the earnings from shipment into and out of the U.S. would be treated as U.S. earnings, (currently most of this income is treated as "earned on the high seas"). It would also involve ending the exemption from taxation that income earned by foreign flag shipping companies now enjoys. Recommendations along these lines have already been proposed by a Task Force of the House Ways and Means Committee.

RECOMMENDATION

While we feel that cargo preference is a flawed concept, it appears to be the only immediately available alternative that can significantly strengthen the maritime industry. In light of your commitment to the industry, and the likelihood that rejection of cargo preference will be seen as a broken promise, we support the limited cargo preference option oulined above.

ok -
Strauss get
minimum

J

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON
20506

June 24, 1977

MEMORANDUM FOR THE PRESIDENT

From: Ambassador Robert S. Strauss

Subject: Cargo Preference Legislation

R.S.S.

Stu Eizenstat and I have met at length with Senator Long on this issue. I have taken indirect soundings of the leadership of the unions, and talked with others on the Hill. Blackwell of the Maritime Administration believes our labor soundings are accurate.

Politically, something in the way of a Cargo Preference is going to be very hard to resist. Other options don't serve or satisfy the political need, and might even be counterproductive. The unions certainly feel that the Administration is committed to a Cargo Preference Policy.

The Maritime unions claim that a Cargo Preference Act is essential to the future of the U.S. Merchant Fleet and the security of the United States. Other remedies such as those proposed in the several option papers which have been circulated, in their view, do not suit this purpose and are seen either as entirely insufficient or a policy action contrary to their interests. They believe that the Cargo Preference policy will protect seafaring jobs for U.S. sailors and provide substantial on-shore employment in shipyards around America. (They point to the substantial numbers of minority employment in today's shipyards as evidence that the jobs created on-shore would go where the need is greatest.)

What we have determined is that establishing the concept of Cargo Preferences is more important than the percentage. When Eizenstat and I met with Russell Long, we finally convinced him of this and left him in the political posture of "anything you fellows can satisfy Jesse Calhoun with, I will take and support." I believe we can successfully sell less than ten percent preferences stretched out over five or six years and try to get the Hill and the Union committed to this if you desire to go the Cargo Preference route. In short, what we have accomplished is determining that the concept is far more important than the percentage.

This memorandum is not an attempt to justify Cargo Preferences over other options. It is intended to provide you with a least possible option at an initial, relatively modest cost. There are other memoranda presently before you relating to inflationary and trade aspects. I would be glad to discuss these options with you personally if you desire. It is my personal opinion that we have a day or two "bad story" situation following any available option.

June 17, 1977

1977 JUN 17 PM 4 25

MEMORANDUM FOR THE PRESIDENT

FROM: W. MICHAEL BLUMENTHAL
CHAIRMAN, ECONOMIC POLICY GROUP WMB

SUBJECT: OIL CARGO PREFERENCE

In March the EPG unanimously recommended that you oppose oil cargo preference legislation, and suggested we might explore alternative ways of assisting the maritime industry. You then directed Commerce and White House staff to consult further on the Hill and with industry groups.

These consultations indicate that while the maritime interests would support a modified version of the cargo preference bill (H.R. 1037), they consider alternative forms of assistance inadequate and would strongly oppose them as a substitute for cargo preference.

During the campaign you made several statements about the need for a viable U.S. maritime industry, which maritime interests understand as commitments to support cargo preference. It appears that your campaign commitment was to increase the number of seagoing jobs and not to assist the shipbuilding industry.

The House Subcommittee on Merchant Marine is pressing the Administration for a decision. There is also an intensive lobbying effort underway on behalf of cargo preference by a coalition of shipbuilders, ship operators and marine supportive industries.

The EPG has reviewed this issue again and presents three alternative proposals.

<u>OPTION 1: Support a modified form of cargo preference, with a reduced preference percentage, a stretched out implementation timetable, and provision for limited foreign-built tanker participation.</u> (Commerce and Labor support.)
<u>Pro:</u> This is acceptable to maritime interests. Impact on national security cuts both ways: Commerce believes U.S.-flag ships would be more reliable in emergencies; State and DOD do not see that as a benefit since foreign ports

might be closed to U.S.-flag ships. It would create 2100 to 4600 new seagoing jobs, a possible 13,500 transitional shipyard jobs after 1980, plus some near-term shipyard business for reconstruction of foreign-built tankers. The U.S. balance of payments could improve by $95-$150 million. Might improve tanker safety and pollution avoidance. Age limit would prevent use of obsolescent tankers in preference trade.
Con: Annual cost through higher oil prices is estimated at $233-$884 million depending on level of oil imports in 1985 and final form of the wellhead tax. If the wellhead tax exempts cargo preference oil, the annual cost per job created ranges from $23,000 to $111,000. CEA estimates the net impact on the economy as a whole would be a decrease in total employment and GNP. Would be contrary to London Summit pledge to reject protectionism, would reverse U.S. policy favoring free competition, could trigger emulation by others, and would violate U.S. treaties with more than 30 countries.

OPTION 2: Expanded use of operating subsidies. (Supported by State, CEA, NSC, DOD, DOT and the Special Assistant to the President for Energy; OMB supports without a cap on the subsidy. Treasury and FEA support option 2 or 3.)
Pro: By relaxing restrictions on eligibility for operating subsidies, and increasing operation subsidies from the current level of $400 million per year to $500 million per year, 5,000 additional seagoing jobs could be created at an annual cost per job of $20,000. Would not increase the cost of oil and, therefore, would not have the inflationary impact of cargo preference. Would not have the adverse foreign policy repercussions of cargo preference.
Con: Is strongly opposed by maritime interests as an alternative to cargo preference. They argue that independent operators will not be attracted and that the major oil companies with their company unions will be the primary beneficiaries. Shipbuilders oppose since no new ship construction would be generated. Further consultation and staffing are needed if you choose this approach since it would mean basic changes in long standing subsidy programs, including a budgetary ceiling for the first time. A recent OMB attempt to cap existing subsidies was strongly opposed.

OPTION 3: Extend the Jones Act, which requires U.S. ships for domestic commerce, to the Virgin Islands for oil. (Treasury and FEA support option 2 or 3. State supports option 3 in conjunction with option 2 if needed.)
Pro: Could create 2,000 seagoing jobs with the cost likely to be absorbed by the refiner thereby avoiding the inflationary impact of cargo preference. After years of resisting,

Amerada Hess, the only refinery in the Virgin Islands, is no longer opposing extension of the Jones Act since the oil import fee system will make it cheaper to use U.S.-flag ships.
Con: Maritime interests oppose this as a substitute for cargo preference because they believe the Congress will extend the Jones Act to their benefit in any event. There is also concern that it could serve as a precedent to complete extension of the Jones Act to the Virgin Islands which could impact negatively on tourism, the islands' major industry.

ADDITIONAL ISSUE: In-depth study of the maritime industry. (Supported by State, Commerce, OMB, CEA, NSC, DOD, DOT, FEA, and the Special Assistant to the President for Energy. Treasury supports with option 3.) This would be a broad study of all aspects of the maritime industry including the various government support measures, regulation of shipping, and anti-competitive arrangements of foreign carriers. The study would seek to develop a long-run national maritime policy in preparation for dealing with future requests for assistance and to assure that U.S. maritime needs are met. Such an in-depth study might be a fourth option by itself, but since it would entail a substantial further delay, it would be opposed by maritime interests.

Background on the maritime industry and a detailed elaboration of the pros and cons of the foregoing options are attached. In view of the economic and political complexity of this issue, I recommend that you have a brief meeting with Cabinet members and advisers most concerned before you make a final decision.

RECOMMENDATION

That you convene a Cabinet-level meeting on this subject.

Approve____________ Disapprove____________

DECISION

OPTION 1: Modified Oil Cargo Preference

Approve____________ Disapprove____________

OPTION 2: Expanded Use of Operating Subsidies

Approve____________ Disapprove____________

OPTION 3: Extend the Jones Act to Virgin Islands for Oil

Approve____________ Disapprove____________

ADDITIONAL ISSUE: In-Depth Study of the Maritime Industry

Approve____________ Disapprove____________

PAST STATEMENTS BY PRESIDENT CARTER

In a discussion of Cargo Preference with leaders of the National Maritime Union at the time they endorsed him for President last spring, Mr. Carter said the following:

> "Well one thing that I've learned as Governor and I believe that I can see clearly the prospect as President is that if it did cost two cents a gallon more or one cent a gallon more, I think that if I went to the American people and I would say, 'look it's going to cost us a million gallons of gasoline* to haul the fuel in our ships. I'd think it's gratifying to have the strength and that insurance which you need for a strong merchant marine. This is what I am recommending to the Congress and to the people.' I believe that the American people would say well you know that's reasonable. You might have to give this product or that product we have to have a nation that's bound together.
>
> We've seen the American people mislead so often that they kind of lost confidence in the Government. But I think that if you approach a problem head-on if in certain circumstances it does cost more to ship on American ships the best thing to do is tell the American people that it cost more on American ships because we pay our seamen adequate wages. You wouldn't want to do otherwise. And I think this is a good investment for the American people to make sure we have an adequate ....**"

* He must have misspoke here

** Next word garbled.

At another meeting involving senior representatives of maritime management and labor and the Congress, Mr. Carter said on June 30, 1976:

> "I'll feel responsible for that as President. I know that the cost will be fairly large. Sometimes there may be a necessity for slightly higher charge to haul cargo. I recognize that, but I believe that if I, as President, would present this proposition to the Congress and the people and say it might cost a little more -- and I'll expect you to cooperate to hold that cost down -- it might cost a little more but it will provide for our nation's defense, I think the American people will respond."

In a letter of May 25, 1976, to the President, National Marine Engineers' Beneficial Association, Mr. Carter placed the following among the objectives for which he intended to work:

> "Enact and develop a national cargo policy which would assure our U.S.-flag merchant marine a fair share of all types of cargo."

Finally, the 1976 Democratic Platform on Maritime Affairs includes as an objective:

> "....the development of a national cargo policy which assures the U.S. fleet a fair participation in all U.S. trade."

/8/77

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

INFORMATION

8 July 1977

TO: STU

FROM: RICK

SUBJECT: Your Request for Information About Staffing of the Cargo Preference Decision

On June 17 my office received Secretary Blumenthal's memo of the same day on cargo preference, giving EPG's views. A memo from Secretary Kreps was also attached. These memos were staffed to:

Eizenstat
Watson
Lance
Schlesinger
Mondale
Lipshutz
Moore
Brzezinski

We received back memos from NSC, Schlesinger, OMB, Eizenstat. Schlesinger concurred with Blumenthal, while NSC and OMB staff memos recapitulated their views as summarized in the Blumenthal/EPG memo.

Jack's office requested that the Eizenstat memo be staffed. The memo was received and staffed out on June 24 to:

Watson
Lance
Schlesinger
Mondale
Lipshutz
Moore
Brzezinski

Butler, Moore and Lipshutz concurred with Eizenstat's recommendations. Schlesinger stated that the EPG memo fairly summarized the issues involved. NSC sent note stating that NSC's views were recorded in the Blumenthal/EPG memo. I also called Charlie Schultze's office, and his special assistant reconfirmed to me that CEA continued to stick with the CEA position recorded in Blumenthal's memo.

At that point I sent in to the President:

1. the Eizenstat memo
2. Strauss memo
3. Blumenthal's memo giving the views of EPG (the Blumenthal memo summarized the views of: Commerce, Labor, State, CEA, NSC, DOD, DOT, Schlesinger, OMB, Treasury and FEA)
4. a list of the President's campaign statements on cargo preference
5. Eizenstat memo on the repatriation of American-owned foreign flag ships (at the President's request)

Also included were a brief summary of OMB's memo reiterating opposition to cargo preference, and a note that Butler, Moore and Lipshutz concurred with Eizenstat.

The memo went to the President on June 27, and came out on June 28. I sent copies of the President's decision to the following persons on the 28th:

Blumenthal
Mondale
Eizenstat
Moore
Watson
Brzezinski
Butler
Lance
Schultze
Strauss
Preeg (EPG staff)

As you know, I think there is little merit to the objection by NSC/State that they were not properly consulted.

The State Department's comments were included in the EPG memo submitted by Secretary Blumenthal, as were NSC's comments. Both the Blumenthal and Eizenstat memos were staffed to Brzezinski's office. Christine Dodson of the NSC staff twice responded that NSC's position was recorded in the Blumenthal/EPG memo. Memos were always sent directly to Dr. Brzezinski for comment; if his staff did not bring the issue or the President's decision to his attention in timely fashion, or if his staff did not look out for the State Department's interest, than this is an issue for him to resolve within his own staff.

Attached: copy of our file on cargo preference

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FILE LOCATION
Carter Presidential Papers- Staff Offices, Office of the Staff Sec. -Pres. Hand writing File 7/9/77 [1] Box 38

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THE WHITE HOUSE

WASHINGTON

June 28, 1977

Secretary Blumenthal
The Vice President
Stu Eizenstat
Frank Moore
Jack Watson
Z. Brzezinski
Landon Butler
Bert Lance
Charlie Schultze
Robert Strauss

Re: Cargo Preference

The attached was returned in the President's outbox and is forwarded to you for your information and appropriate action.

Rick Hutcheson

cc: Ernie Preeg

THE WHITE HOUSE

WASHINGTON

cc Ernie Preeg
~~[illegible]~~ Sec Blumenthal

ACTION	FYI	
	X	MONDALE
		COSTANZA
	X	EIZENSTAT
		JORDAN
		LIPSHUTZ
	X	MOORE
		POWELL
	X	WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	FOR STAFFING
	FOR INFORMATION
X	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

		ARAGON
		BOURNE
	X	BRZEZINSKI
	X	BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		GAMMILL
		HARDEN
		HOYT
		HUTCHESON
		JAGODA
		KING

		KRAFT
	X	LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
	X	SCHULTZE
		SIEGEL
		SMITH
		STRAUSS
		WELLS
		VOORDE

MEMORANDUM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

Stu -
see note
J

ACTION

27 June 1977

TO: THE PRESIDENT

FROM: RICK HUTCHESON Rick

SUBJECT: Cargo Preference

Attachments:

1. Eizenstat summary of the options, with recommendations. (As Stu as summarized Secretary Kreps' memo adequately, it is not attached.)

2. Strauss memo on political aspects of the decision.

3. EPG option paper from Secretary Blumenthal. (An appendix, spelling out the EPG pros and cons at greater length, was not attached.)

4. Carter campaign statements on cargo preference.

5. Eizenstat memo on the repatriation of American-owned foreign flag ships, as a possible alternate to cargo preference (at your request).

Other staff comments:

Butler, Moore and Lipshutz concur with Eizenstat's recommendations.

OMB reiterates its opposition to cargo preference on the grounds that it would: (a) invite retaliation; (b) be expensive; (c) be difficult to administer; and (d) would amount to protectionism for the U.S. merchant marine. OMB favors EPG Option #2, modified such that: (a) there is no explicit cap on the operating subsidy budget; and (b) the participation of foreign built ships would be limited to only oil tankers.

THE WHITE HOUSE

WASHINGTON

June 23, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
BILL JOHNSTON

SUBJECT: Cargo Preference

BACKGROUND

At your instruction we have consulted extensively with industry and Congressional leaders trying to develop a mutually satisfactory strategy for rebuilding the American merchant marine. Unfortunately, our efforts to find a generally acceptable compromise to cargo preference have not been successful.

The maritime industry, and its many Congressional supporters, supported some of our alternative proposals. But every group we talked to felt that our proposals were not acceptable substitutes for cargo preference. They were willing to accept sharp cutbacks in percentages and timetables if we would agree to some form of cargo preference. But they rejected all other compromises citing their understanding of your campaign promise. Within the last week both Senator Long personally, and Congressman Murphy by letter, have emphatically restated this to me.

On the other side many members of our Administration, including Charlie Schultze, Mike Blumenthal and Dick Cooper, feel that no version of cargo preference is acceptable. They feel that the principles involved - our commitments to free trade and to the fight against inflation - cannot be breached. They argue that the economic costs of cargo preference outweigh its benefits. Moreover, they feel that even a modest cargo preference bill entails a dangerous precedent that may later be extended by Congress, or imitated by other nations.

OPTIONS

The attached decision memos from Secretaries Blumenthal and Kreps lay out two views of the alternatives. The EPG paper concludes that the options are:

1) Cargo preference with the reserved share cut to 25% and with foreign built ships eligible for 2/5 of this share.

2) A larger operating subsidy program for which all kinds of ships would be eligible, and for which the eligibility rules would be significantly relaxed.

3) Extension of the Jones Act to the Virgin Islands for oil.

Option 2 was developed by CEA, EPG, Treasury and OMB staffs after an EPG discussion in which many EPG members expressed dissatisfaction with both cargo preference and other options.

Secretary Kreps feels that Option 2 should be rejected because it is unlikely to benefit the U.S. merchant marine and is certain to be offensive to most of the industry. She doubts that Option 3 is viable either, because it involves relatively few ships and is almost certain to be enacted with or without our support. She believes that the real choices are:

1) Cargo preference as in 1 above.

2) A package of alternatives that would include:
   a) The Jones Act extension as in Option 3.
   b) Repeal of the U.S. income tax deferrals available to foreign subsidiaries of U.S. shipping companies. (Treasury opposes this)
   c) A legislative initiative to expand our dry bulk fleet. (already drafted)
   d) A commitment to seek additional bilateral shipping agreements on a case by case basis.

ANALYSIS

We agree with Secretary Kreps that from a political standpoint, Option 2 in the Blumenthal memo does not merit serious consideration. The proposed subsidy is a potentially expensive on-budget item with uncertain benefits. And because the proposal would tend to benefit the large oil companies, the maritime community would view it as an insult rather than as a substitute. As Secretary Kreps observes, a simple rejection of cargo preference is politically preferable to Option 2.

In our view the options boil down to accepting or rejecting cargo preference. If you reject it, a package of alternatives should be offered, even though these will not be considered acceptable by cargo preference proponents.

Accordingly we would modify the two Kreps options as follows:

Less than 10%, as Strauss indicates

1) Cargo Preference with severely reduced percentages: We feel that the percentage of oil imports reserved for our ships should be cut to 8-12%, with half of this available to foreign built ships reregistered under the American flag. This proposal would substantially increase the current proportion of oil moving on American ships and create some sea going and shipyard jobs, at a minimal cost to the public (estimated at $75-100 million). Both Congressman Murphy and Senator Long have indicated that a proposal along these lines would be satisfactory. It would, of course, still set the precedents considered to be undesirable.

   Ambassador Strauss has worked closely with us in developing this alternative. At his instance we have met with a representative of the unions who has indicated that such a severely reduced percentage would be acceptable because it would, at least, recognize the concept of cargo preference.

   Thus, we could accurately state that we have fulfilled our campaign commitment (see attached campaign statements) but at a reasonable cost.

   As under the current version of H.R. 1037, our proposal for vastly reduced cargo preference percentages would not add to maritime subsidy costs, since preference ships would not be eligible for any subsidies.

2) A set of alternatives including a-d in the Kreps Option 2 above and:
   e) Increased income taxes on both American and foreign owned foreign flag fleets. This would involve changing the definition of income sources so that half of the earnings from shipment into and out of the U.S. would be treated as U.S. earnings, (currently most of this income is treated as "earned on the high seas"). It would also involve ending the exemption from taxation that income earned by foreign flag shipping companies now enjoys. Recommendations along these lines have already been proposed by a Task Force of the House Ways and Means Committee.

RECOMMENDATION

While we feel that cargo preference is a flawed concept, it appears to be the only immediately available alternative that can significantly strengthen the maritime industry. In light of your commitment to the industry, and the likelihood that rejection of cargo preference will be seen as a broken promise, we support the limited cargo preference option oulined above.

ok -
Strauss get
minimum

J

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON
20506

June 24, 1977

MEMORANDUM FOR THE PRESIDENT

From: Ambassador Robert S. Strauss

Subject: Cargo Preference Legislation

RSS

Stu Eizenstat and I have met at length with Senator Long on this issue. I have taken indirect soundings of the leadership of the unions, and talked with others on the Hill. Blackwell of the Maritime Administration believes our labor soundings are accurate.

Politically, something in the way of a Cargo Preference is going to be very hard to resist. Other options don't serve or satisfy the political need, and might even be counterproductive. The unions certainly feel that the Administration is committed to a Cargo Preference Policy.

The Maritime unions claim that a Cargo Preference Act is essential to the future of the U.S. Merchant Fleet and the security of the United States. Other remedies such as those proposed in the several option papers which have been circulated, in their view, do not suit this purpose and are seen either as entirely insufficient or a policy action contrary to their interests. They believe that the Cargo Preference policy will protect seafaring jobs for U.S. sailors and provide substantial on-shore employment in shipyards around America. (They point to the substantial numbers of minority employment in today's shipyards as evidence that the jobs created on-shore would go where the need is greatest.)

What we have determined is that establishing the concept of Cargo Preferences is more important than the percentage. When Eizenstat and I met with Russell Long, we finally convinced him of this and left him in the political posture of "anything you fellows can satisfy Jesse Calhoun with, I will take and support." I believe we can successfully sell less than ten percent preferences stretched out over five or six years and try to get the Hill and the Union committed to this if you desire to go the Cargo Preference route. In short, what we have accomplished is determining that the concept is far more important than the percentage.

This memorandum is not an attempt to justify Cargo Preferences over other options. It is intended to provide you with a least possible option at an initial, relatively modest cost. There are other memoranda presently before you relating to inflationary and trade aspects. I would be glad to discuss these options with you personally if you desire. It is my personal opinion that we have a day or two "bad story" situation following any available option.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

June 17, 1977

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MEMORANDUM FOR THE PRESIDENT

FROM: W. MICHAEL BLUMENTHAL
CHAIRMAN, ECONOMIC POLICY GROUP WMB

SUBJECT: OIL CARGO PREFERENCE

In March the EPG unanimously recommended that you oppose oil cargo preference legislation, and suggested we might explore alternative ways of assisting the maritime industry. You then directed Commerce and White House staff to consult further on the Hill and with industry groups.

These consultations indicate that while the maritime interests would support a modified version of the cargo preference bill (H.R. 1037), they consider alternative forms of assistance inadequate and would strongly oppose them as a substitute for cargo preference.

During the campaign you made several statements about the need for a viable U.S. maritime industry, which maritime interests understand as commitments to support cargo preference. It appears that your campaign commitment was to increase the number of seagoing jobs and not to assist the shipbuilding industry.

The House Subcommittee on Merchant Marine is pressing the Administration for a decision. There is also an intensive lobbying effort underway on behalf of cargo preference by a coalition of shipbuilders, ship operators and marine supportive industries.

The EPG has reviewed this issue again and presents three alternative proposals.

OPTION 1: Support a modified form of cargo preference, with a reduced preference percentage, a stretched out implementation timetable, and provision for limited foreign-built tanker participation. (Commerce and Labor support.)
Pro: This is acceptable to maritime interests. Impact on national security cuts both ways: Commerce believes U.S.-flag ships would be more reliable in emergencies; State and DOD do not see that as a benefit since foreign ports

might be closed to U.S.-flag ships. It would create 2100 to 4600 new seagoing jobs, a possible 13,500 transitional shipyard jobs after 1980, plus some near-term shipyard business for reconstruction of foreign-built tankers. The U.S. balance of payments could improve by $95-$150 million. Might improve tanker safety and pollution avoidance. Age limit would prevent use of obsolescent tankers in preference trade.
<u>Con</u>: Annual cost through higher oil prices is estimated at $233-$884 million depending on level of oil imports in 1985 and final form of the wellhead tax. If the wellhead tax exempts cargo preference oil, the annual cost per job created ranges from $23,000 to $111,000. CEA estimates the net impact on the economy as a whole would be a decrease in total employment and GNP. Would be contrary to London Summit pledge to reject protectionism, would reverse U.S. policy favoring free competition, could trigger emulation by others, and would violate U.S. treaties with more than 30 countries.

OPTION 2: <u>Expanded use of operating subsidies</u>. (Supported by State, CEA, NSC, DOD, DOT and the Special Assistant to the President for Energy; OMB supports without a cap on the subsidy. Treasury and FEA support option 2 or 3.)
<u>Pro</u>: By relaxing restrictions on eligibility for operating subsidies, and increasing operation subsidies from the current level of $400 million per year to $500 million per year, 5,000 additional seagoing jobs could be created at an annual cost per job of $20,000. Would not increase the cost of oil and, therefore, would not have the inflationary impact of cargo preference. Would not have the adverse foreign policy repercussions of cargo preference.
<u>Con</u>: Is strongly opposed by maritime interests as an alternative to cargo preference. They argue that independent operators will not be attracted and that the major oil companies with their company unions will be the primary beneficiaries. Shipbuilders oppose since no new ship construction would be generated. Further consultation and staffing are needed if you choose this approach since it would mean basic changes in long standing subsidy programs, including a budgetary ceiling for the first time. A recent OMB attempt to cap existing subsidies was strongly opposed.

OPTION 3: <u>Extend the Jones Act, which requires U.S. ships for domestic commerce, to the Virgin Islands for oil</u>. (Treasury and FEA support option 2 or 3. State supports option 3 in conjunction with option 2 if needed.)
<u>Pro</u>: Could create 2,000 seagoing jobs with the cost likely to be absorbed by the refiner thereby avoiding the inflationary impact of cargo preference. After years of resisting,

Amerada Hess, the only refinery in the Virgin Islands, is no longer opposing extension of the Jones Act since the oil import fee system will make it cheaper to use U.S.-flag ships.
Con: Maritime interests oppose this as a substitute for cargo preference because they believe the Congress will extend the Jones Act to their benefit in any event. There is also concern that it could serve as a precedent to complete extension of the Jones Act to the Virgin Islands which could impact negatively on tourism, the islands' major industry.

ADDITIONAL ISSUE: In-depth study of the maritime industry. (Supported by State, Commerce, OMB, CEA, NSC, DOD, DOT, FEA, and the Special Assistant to the President for Energy. Treasury supports with option 3.) This would be a broad study of all aspects of the maritime industry including the various government support measures, regulation of shipping, and anti-competitive arrangements of foreign carriers. The study would seek to develop a long-run national maritime policy in preparation for dealing with future requests for assistance and to assure that U.S. maritime needs are met. Such an in-depth study might be a fourth option by itself, but since it would entail a substantial further delay, it would be opposed by maritime interests.

Background on the maritime industry and a detailed elaboration of the pros and cons of the foregoing options are attached. In view of the economic and political complexity of this issue, I recommend that you have a brief meeting with Cabinet members and advisers most concerned before you make a final decision.

RECOMMENDATION

That you convene a Cabinet-level meeting on this subject.

Approve____________ Disapprove____________

DECISION

OPTION 1: Modified Oil Cargo Preference

Approve____________ Disapprove____________

OPTION 2: Expanded Use of Operating Subsidies

Approve____________ Disapprove____________

OPTION 3: Extend the Jones Act to Virgin Islands for Oil

Approve____________ Disapprove____________

ADDITIONAL ISSUE: In-Depth Study of the Maritime Industry

Approve____________ Disapprove____________

PAST STATEMENTS BY PRESIDENT CARTER

In a discussion of Cargo Preference with leaders of the National Maritime Union at the time they endorsed him for President last spring, Mr. Carter said the following:

> "Well one thing that I've learned as Governor and I believe that I can see clearly the prospect as President is that if it did cost two cents a gallon more or one cent a gallon more, I think that if I went to the American people and I would say, 'look it's going to cost us a million gallons of gasoline* to haul the fuel in our ships. I'd think it's gratifying to have the strength and that insurance which you need for a strong merchant marine. This is what I am recommending to the Congress and to the people.' I believe that the American people would say well you know that's reasonable. You might have to give this product or that product we have to have a nation that's bound together.
>
> We've seen the American people mislead so often that they kind of lost confidence in the Government. But I think that if you approach a problem head-on if in certain circumstances it does cost more to ship on American ships the best thing to do is tell the American people that it cost more on American ships because we pay our seamen adequate wages. You wouldn't want to do otherwise. And I think this is a good investment for the American people to make sure we have an adequate ....**"

* He must have misspoke here

** Next word garbled.

At another meeting involving senior representatives of maritime management and labor and the Congress, Mr. Carter said on June 30, 1976:

> "I'll feel responsible for that as President. I know that the cost will be fairly large. Sometimes there may be a necessity for slightly higher charge to haul cargo. I recognize that, but I believe that if I, as President, would present this proposition to the Congress and the people and say it might cost a little more -- and I'll expect you to cooperate to hold that cost down -- it might cost a little more but it will provide for our nation's defense, I think the American people will respond."

In a letter of May 25, 1976, to the President, National Marine Engineers' Beneficial Association, Mr. Carter placed the following among the objectives for which he intended to work:

> "Enact and develop a national cargo policy which would assure our U.S.-flag merchant marine a fair share of all types of cargo."

Finally, the 1976 Democratic Platform on Maritime Affairs includes as an objective:

> "....the development of a national cargo policy which assures the U.S. fleet a fair participation in all U.S. trade."

Supplemental Issue: Repatriation of American Owned Ships

You asked me to assess an earlier memorandum that suggested, as an alternative to cargo preference, a program to encourage repatriation of American owned foreign flag ships.

Such a program might involve two major elements:

1) Reform of the tax laws which grant exemptions and deferrals of taxation on foreign flag shipping. (Option 2 of my memo outlines these changes.)

2) Reform of the laws which currently reserve operating and construction subsidies, and certain foreign aid and defense cargoes for companies that operate All-American fleets, i.e., exclusively American built, operated and repaired. (Option 2 of the EPG memo includes some of these changes)

- While I believe that the changes in the tax code may merit support, they will probably not, by themselves, be sufficient to encourage large numbers of ships to repatriate. The foreign flag companies argue that if their subsidies are ended they may simply divest themselves of their fleets, and utilize foreign charters, rather than repatriating.

- As for the changes that would open the maritime subsidy programs to mixed fleets, I do not believe that such changes are warranted. One major impact of such changes would be to make the major oil companies, which now operate large foreign fleets, eligible for subsidies if they re-flagged their ships. This would generate a few new sea-going jobs, but would not, initially, generate any shipyard employment. The sea going jobs would go to members of the oil company unions, rather than to the maritime unions. The result would be bitter opposition from the maritime industry, and public criticism of the bonanza for the oil companies.

- Finally, both the rule changes and the changes in the tax code could not pass without support from many key legislators who now favor cargo preference. (Notably Russell Long.) While I have not posed the question directly, I very much doubt that we could obtain this support if we opposed cargo preference.

  One additional note: The repatriation memo implied that cargo preference would add to maritime subsidy costs. Under the current version of H.R. 1037, preference ships would <u>not</u> be eligible for any subsidies.

Sts-
Q55255
J. C.

THE PRESIDENT HAS SEEN.

Cargo Preference Legislation (H.R. 1037)

Congressman Murphy (D.-N.Y.) has introduced a bill which would require that 20 percent of the oil imported by the U.S. be transported on U.S. flag ships. By 1980, the preference percentage would increase to 30 percent.

Cargo preference legislation passed Congress in the last session but was vetoed by the Ford Administration. It apparently has strong support in the committees having jurisdiction over maritime matters.

World-wide, there is a large surplus of tankers; the cargo preference legislation would create an artificial demand for construction of additional tankers in the U.S.

New ships built as a result of cargo preference legislation would balloon spending under the various subsidies that the maritime interests now enjoy--construction differential subsidies, operating subsidies, loan guarantees, and special tax shelter benefits. A ~~1948~~ 1952 study by the Treasury Department reported that the cost to the Government in lost tax revenues from the special tax provisions was eight times the cost of the operating subsidies paid.

Comments on the four main arguments used in support of the legislation are as follows:

- U.S. tankers are safer. Comment. Even if U.S. ships are safer than foreign ships, 70 percent of U.S. oil imports would still be transported on foreign ships.
- U.S. tankers could be made available for military support. Comment. The tankers likely to be built for the cargo preference trade will be too large and cumbersome for effective military support in time of war.
- U.S. tankers can be depended upon for civilian supply during crisis or war. Comment. It is not apparent that the U.S. needs control over tankers when it does not have control over foreign oil supplies. However, if U.S. flag ships are essential for this purpose, U.S. owned, foreign flag tankers could be repatriated.
- A U.S. tanker construction program would create jobs. Comment. If warranted, jobs for U.S. seamen could be created by repatriating U.S. owned, foreign flag tankers. However, jobs created in the shipbuilding industry by H.R. 1037 would be a one-time surge leaving a problem for the future.

As drafted, H.R. 1037 would require construction of at least 100 tankers within the next few years despite a world-wide surplus. This could divert present shipyard capacity from the Navy's shipbuilding program to tanker construction. In addition, H.R. 1037 would require a substantial increase in the Commerce Department's budget as present law authorizes the Government to subsidize up to 50 percent of the cost of each ship constructed. Federal ship mortgage guarantees would also increase significantly.

U.S. firms own or control over 200 foreign-built tankers, less than 15 years old. When added to our present fleet these ships could transport over 50 percent of U.S. oil imports. Moreover, most of these foreign-built ships are of a type which could be used for military support in wartime.

To repatriate these vessels U.S. restrictions in H.R. 1037 and existing merchant marine statutes impeding repatriation and restricting certain cargoes to U.S. built ships would have to be removed--at least until a sufficient number of ships have been repatriated.

What can we do?

As an alternative to cargo preference legislation, repatriation would:

- Avoid the economic, budgetary and warship construction impact problems inherent in H.R. 1037.
- Create jobs for U.S. seamen and increase U.S. control of oil imports transportation faster than any other method.
- Assure a gradual increase in long term demand for the U.S. shipbuilding industry. Repatriated ships would be replaced by U.S. built ships.

- Increase both short and long term demand for the U.S. ship repair industry. It's capacity is likely to be of more value in time of war than that of the shipbuilding industry.

WASHINGTON

Date: June 24, 1977

MEMORANDUM

FOR ACTION:

Jack Watson
Bert Lance
Jim Schlesinger - favor issue paper JDS
Landon - concurs
Schultze - by phone

FOR INFORMATION:

The Vice President
Bob Lipshutz concur + comments
Frank Moore concur
Z. Brzezinski

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Eizenstat/Johnston's memo 6/23/77 re Cargo Preference.

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 10:00 AM

DAY: Monday

DATE: June 27, 1977

ACTION REQUESTED:

X Your comments

Other:

STAFF RESPONSE:

___ I concur.

___ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

NATIONAL SECURITY COUNCIL

June 27, 1977

To: Rick Hutcheson
From: Christine Dodson Christine

Attached is a memorandum stating the NSC's position on Cargo Preferences.

file

MEMORANDUM

NATIONAL SECURITY COUNCIL 4076

June 27, 1977

MEMORANDUM FOR: CHRISTINE DODSON

FROM: TIMOTHY DEAL

SUBJECT: Cargo Preferences

You asked for our comments/concurrence on the Eizenstat/Johnston memo regarding cargo preferences. We have already commented extensively on this issue and our views are recorded in Secretary Blumenthal's memo to the President on behalf of the EPG. The EPG memo outlined three options. We supported -- and continue to support -- option 2 which calls for increased operating subsidies without cargo preferences. We agree with State, CEA and Treasury that from an economic and foreign policy standpoint no version of cargo preferences is acceptable. Such measures are inflationary and protectionist.

We do not support the Eizenstat/Johnston recommendation for a more restricted cargo preference system. The fallback option is also unacceptable. The five alternative measures listed (including four from Secretary Kreps' memo) were carefully reviewed by an inter-agency group and rejected as unworkable, costly and ineffective.

We recommend, therefore, that the President choose option 2 in the Blumenthal memo. That position has the support of the vast majority of the agencies represented on the EPG.

60

THE WHITE HOUSE

WASHINGTON

Date: June 24, 1977

MEMORANDUM

FOR ACTION:

Jack Watson
Bert Lance
Jim Schlesinger

FOR INFORMATION:

The Vice President
Bob Lipshutz
Frank Moore
Z. Brzezinski

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Eizenstat/Johnston's memo 6/23/77 re Cargo Preference.

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 10:00 AM

DAY: Monday

DATE: June 27, 1977

ACTION REQUESTED:

X Your comments

Other:

STAFF RESPONSE:

____ I concur.

____ No comment.

Please note other comments below:

RICK -
STU'S SOLUTION MAKES THE MOST OF A VERY DIFFICULT SITUATION -
WE CONCUR -

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

THE WHITE HOUSE

WASHINGTON

Date: June 24, 1977

MEMORANDUM

FOR ACTION:

Jack Watson
Bert Lance
Jim Schlesinger

TO R

FOR INFORMATION:

The Vice President
Bob Lipshutz
Frank Moore
Z. Brzezinski

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Eizenstat/Johnston's memo 6/23/77 re Cargo Preference.

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 10:00 AM

DAY: Monday

DATE: June 27, 1977

ACTION REQUESTED:

X Your comments

Other:

STAFF RESPONSE:

✓ I concur. ___ No comment.

Please note other comments below:

I support the concept set out by Stu and Bill: Cargo preference with severely ~~limited~~ reduced percentages; and Income Tax Law changes to furnish an incentive for repatriation of American owned ships to our flag.

Further, if we validly can do so, I suggest taxing a portion of all foreign flag ships earnings relative to business done in the U.S.A.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions ...

WASHINGTON

MEMORANDUM

Date: June 17, 1977

FOR ACTION:	FOR INFORMATION:
Stu Eizenstat — attached	The Vice President
Jack Watson	Bob Lipshutz
Bert Lance — Attached	Frank Moore
Jim Schlesinger concur	Zbigniew Brzezinski concur w/o

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Chairman Blumenthal's memo 6/17/77 re Oil Cargo Preference/Sec. Kreps' memo 6/17/77 re Modified Oil Cargo Preference and Other Maritime Options.

working on it

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 10:00 AM

DAY: ~~Tuesday~~ ~~Wed~~ Thurs

DATE: June 21, 1977

Jack HF will con on rewrite

ACTION REQUESTED:

X Your comments

Other:

STAFF RESPONSE:

___ I concur. ___ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

MEMORANDUM

3873

NATIONAL SECURITY COUNCIL

INFORMATION

June 21, 1977

MEMORANDUM FOR: RICK HUTCHESON

FROM: CHRISTINE DODSON

SUBJECT: Oil Cargo Preferences

This is in response to your request of June 17 for our comments on Secretary Blumenthal's memorandum concerning oil cargo preferences.

The NSC staff concurs with Secretary Blumenthal's recommendation that the President discuss this issue with Cabinet members and key advisors. Regarding the proposed options, we support Option 2 (expanded use of operating subsidies) as well as an in-depth study of the maritime industry, which is listed as an additional issue.

THE WHITE HOUSE

WASHINGTON

xc Carp
Johnston

34

Date: June 17, 1977

MEMORANDUM

FOR ACTION:
Stu Eizenstat
Jack Watson
Bert Lance
Jim Schlesinger

FOR INFORMATION:
The Vice President
Bob Lipshutz
Frank Moore
Zbigniew Brzezinski

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Chairman Blumenthal's memo 6/17/77 re Oil Cargo Preference/Sec. Kreps' memo 6/17/77 re Modified Oil Cargo Preference and Other Maritime Options.

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 10:00 AM

DAY: ~~Tuesday~~ Wed.

DATE: June 21, 1977

ACTION REQUESTED:

X Your comments

Other:

STAFF RESPONSE:

____ I concur.

____ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

JUN 21 1977

MEMORANDUM FOR: RICK HUTCHESON

FROM: DENNIS O. GREEN

SUBJECT: Oil Cargo Preference

This is in response to your memorandum of June 17, 1977, to Bert Lance, requesting comments on Chairman Blumenthal's memorandum to the President regarding oil cargo preference legislation and other maritime options.

We continue to believe that oil cargo preference legislation is highly objectionable and should be opposed. If compelled to support some form of action to support the maritime industry then we would endorse a modified option #2 which would expand the use of operating subsidies.

Our specific objections to option #1--modified oil cargo preference--and suggestions for modifying option #2 are as follows:

Option #1: Support a modified form of cargo preference...

-- This would amount to a form of basic protectionism for the U.S. merchant marine. It will be highly offensive to our trading partners, particularly NATO ally countries on whose fleets we can already rely in a national emergency;

-- It will invite retaliation. It may encourage OPEC countries to reserve oil cargo for expanded tanker fleets of their own, and it may become a precedent for other countries to reserve all types of cargo for their merchant fleets;

-- It will be enormously expensive. The estimates show a cost per permanent job created of $91,000 to $111,000, depending on the level of U.S. oil imports. Only if temporary shipyard jobs are added would the average cost per job created fall to $23,000 and then only while additional ships are being constructed. However, these figures understate the case since they are estimates of the situation in 1985, when the world tanker surplus is presumed to have ended and the current differential between U.S. and foreign tanker freight rates will have narrowed; and

-- It will be difficult to administer. The Commerce Department will be required to adopt and enforce regulations to ensure that 25 percent of all our oil imports are carried from source to destination aboard U.S. tankers.

Option #2: Expand use of operating subsidies.

While an expanded operating differential subsidy program is opposed by maritime interests, in particular the maritime unions affiliated with the AFL-CIO who see it benefiting non-affiliated company unions, we believe the option could be modified in two respects which might increase its receptivity without seriously increasing the program's costs.

1. The budget limitation on the operating subsidy program could be removed.

   The idea of controlling operating subsidies through the normal budget process is especially attractive from OMB's perspective. However, endorsement of this proposal is likely to expose the Administration to considerable criticism from maritime unions, shipbuilders, and congressional supporters of the maritime industry. The lifting of certain restrictions, as already proposed in this option, would expand the pool of applicants eligible to receive operating subsidies, and thereby potentially increase the costs of the program. However, other legal requirements of the Merchant Marine Act, relating to the adequacy of the U.S. fleet for the national defense and foreign commerce of the United States, would continue to apply. These would act to restrict the number of operators receiving subsidies.

2. Limit re-registration of U.S. owned foreign-flag ships under the U.S. flag to oil tankers only. This is to reduce the potential for objections from the shipbuilding industry. It is primarily tankers which are in oversupply in the world today and U.S. shipyards have the least probability of building them in the future. Extending eligibility for operating subsidies only to foreign built tankers will also help to limit the budget impact of this option.

We cannot predict with certainty the number of ships which would be added to the current subsidy program under option two with these modifications. However, we anticipate the program could be administered to add approximately $50 million to the cost of the subsidy program ($100 million) as envisioned under Option 2 of the EPG paper.

Recommendation

In summary, we believe that cargo preference, in any form, would be unadvisable. If an option must be chosen to assist the maritime industry then we would endorse Option 2, but with the revisions noted above, i.e., with no explicit cap on the operating subsidy budget and with the participation of foreign built ships limited to only oil tankers.

Finally, given the continued pressure for additional assistance to this industry, I feel that the Administration should undertake a complete review of Federal aids to the maritime industry, with the objective of ascertaining the necessary level of taxpayer support for the U.S. merchant marine.

Dennis O. Green
Associate Director for
Economics and Government

THE WHITE HOUSE

WASHINGTON

Date: June 17, 1977

MEMORANDUM

FOR ACTION:
Stu Eizenstat
Jack Watson
Bert Lance
Jim Schlesinger

FOR INFORMATION:
The Vice President
Bob Lipshutz
Frank Moore
Zbigniew Brzezinski

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Chairman Blumenthal's memo 6/17/77 re Oil Cargo Preference/Sec. Kreps' memo 6/17/77 re Modified Oil Cargo Preference and Other Maritime Options.

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 10:00 AM

DAY: Tuesday

DATE: June 21, 1977

ACTION REQUESTED:

X Your comments

Other:

Agree with statement of issues.

STAFF RESPONSE:

____ I concur.

____ No comment.

Please note other comments below:

JRS

JAMES R. SCHLESINGER

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

THE WHITE HOUSE
WASHINGTON

July 9, 1977

Mrs. Carter
Hugh Carter

The attached was returned in the President's outbox. It is forwarded to you for your information.

Rick Hutcheson

Re: Trial Policy on Handcrafted Gifts

THE PRESIDENT HAS SEEN.

Hugh Let Rosalynn decide J

THE WHITE HOUSE

WASHINGTON

June 14, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER HC

SUBJECT: Trial Policy on Handcrafted Gifts

During May 1977 there were 345 gifts received from the general public which would have all been returned according to the basic gift policy.

In accordance with your permission to accept personally handcrafted gifts on a trial basis (see Tab A), the return of which might result in exceptional personal disappointment, 24 gifts qualified by this definition and were accepted.

Attached is a brief description of the 24 gifts accepted. (See Tab B)

Could you please indicate your wishes with respect to this exception to the gift policy:

1) Make acceptance on handcrafted items part of the permanent policy. ______

2) Continue existing trial acceptance through the month of June. ______

3) Continue trial through June, but be more selective to reduce number of handcrafted gifts accepted. ______

4) Discontinue trial exception policy and return all gifts, as before. ______

My recommendation is to approve Option 1.

A

THE PRESIDENT HAS SEEN.

Hugh
J

THE WHITE HOUSE

WASHINGTON

April 13, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER HC

SUBJECT: Gift Policy

The policy of not accepting gifts from the general public has resulted in the return of many hand-crafted gifts from the handicapped, aged, children and others.

In the instances brought to our attention, reactions have ranged from personal disappointment to feelings of rejection.

The First Lady is quite concerned about this, and has asked me to review this policy with you. She has seen and approved sending this memo.

We would like to know whether you wish to consider amending the Gift Policy to allow acceptance of personally hand-crafted gifts, the return of which might result in exceptional personal disappointment. The gifts would be donated to a worthy cause, and the donor so advised in a letter or card of thanks.

The practical drawback of such a change is the personnel required to open, evaluate, acknowledge and dispose of such gifts, as well as rewrap those being returned. (The present policy is that packages that do not appear to contain a book or record are returned unopened.) A change to this policy would require the retention of one or two persons that would otherwise be reassigned or terminated.

Options:

(1) Continue to return gifts unopened as before.

(2) Open, accept and donate personally hand-crafted gifts.

(3) Try Option 2 for one month and report number of personally hand-crafted gifts received.

Option # 3 J

B

HANDCRAFTED ITEMS ACCEPTED May 1977

MITCHELL, Mrs. Eunice Denver, Colorado	A handmade afghan, royal blue yarn with colorful floral centers, meas. approx. 48 x 74".
FRIEDLAND, Mr. Eric Bayside, New York	One pencil sketch of the President by the 16-year-old donor.
DAVIS, Mr. Everette Sissonville, W. Va. (through Governor's office)	An assortment of 5 desk plaques, decoupaged by the donor, all on wood.
DOYLE, Diana El Cerrito, Ca.	A pink, orange and white "Hollie Hobbie" print cotton dress with pink velvet ribbon belt made by the donor (emotional telephone call.)
Senior Class of the BEVERLY SCHOOL FOR THE DEAF Beverly, Mass.	A small handmade wooden plaque meas. approx. 6 x 12" with "I Love You from Beverly School for the Deaf" and a hand sign of the same message depicted on it.
PHILLIPS, Mrs. J. R.	Raggedy Ann doll for Amy (Not Received in Gift Unit).
EAST DALE ELEMENTARY SCHOOL Fairmont, W. Va.	A handmade tie, blue with yellow and black peanut men design overall, made by the donor.
SUMMEY, Troy & Lillian Whiting, Indiana	Raggedy Ann and Raggedy Andy dolls meas. approx. 18" tall, made by the donors.
HUFF, Mrs. Virgil Weedville, Penn.	One small white decorated and decoupaged egg on a gold stand.
BETHLEHEM-CENTER JR. HIGH SCHOOL Fredericktown, Penn.	A framed pencil sketch of the Pres. by the donors meas. approx. 25 x 32".
KOZLOWSKA, Miss Jennie Pawtucket, Rhode Island	A white crocheted afghan with large red roses, meas. approx. 48 x 70", made by the donor.
DREWS, Mrs. Al Walkerton Nursing Home Walkerton, Ind.	A handmade bird feeder made by patients of the Nursing Home. (consists of toilet paper roll, peanut butter and rolled in bird seed).

HANDCRAFTED ITEMS ACCEPTED cont. May 1977

HARBER, Mrs. John A., Jr. Alexandria, Va.	An octagonal-shaped wooden purse, decoupaged, depicting children in carnival and zoo scenes, meas. approx. 4 1/2" high and approx. 5" square; lined in yellow felt with small mirror on inside of lid; made by the donor.
BROOKS, Mrs. William L. Luling, La.	An original picture by the donor depicting a swamp scene made of wood chips and leather, in a brown and green wood frame, meas. approx. 17 x 22".
ACKER, Mrs. Carmen Van Nuys, Ca.	An unframed picture of Amy sitting on a swing down in crewel by the donor meas. approx. 16 x 20" with embroidered poem on the picture.
LUTTRELL, Mrs. Bronson Lafayette, Ind.	Four handmade dolls and a small handmade blanket by donor.
BAASCH, Mr. & Mrs. Fred Elmwood Park, Ill.	An embroidered picture by the donor depicting the Holy Spirit (in white, blue and gold)above "Amy Carter, Feb. 6, 1977" on a beige linen background. With a blue and silver shadow box frame meas. approx. 11 x 9". The back is inscribed by donor.
FARRIS, Mrs. Sarah Gardena, Ca.	One decoupaged plaque meas. approx. 6 x 8" of the President, Mrs. Carter and Amy.
BUNDY, Ruth Ann & Amy Prairie Village, Kansas	Two handmade Raggedy Ann and Raggedy Andy dolls, made by donors' grandmother.
PHILLIPS, Mrs. Kenneth W. Kinsman, Ohio	One handmade clothespin doll in dark blue print dress with rick-rack trim, made by the donor.
TERRY, Mary E. Columbus, Ohio	A very old doll meas. approx. 2' tall, dressed in a handmade, very ornate white satin gown (18th century style).
FOLEY, Mr. Jim Meriden, Conn.	A portrait of the President hand-tooled by the donor in leather enclosed in a wooden frame meas. approx. 11 x 13".

FLETCHER, Miss Leta Westlake, La.	A portrait of the President painted by the donor (a deaf-mute) meas. approx. 8 x 10".
KIKUCHI, Mrs. Shizuko Chicago, Ill.	A handmade purse by the donor (86 years old) in green, yellow and peach colored cloth with drawstring top. Included is a toy fish and a doll made of red material, also by the donor.

Ck w/ Carter 7/8 B.

THE WHITE HOUSE

WASHINGTON

6/21 First Lady wants to comment upon her return next week

B

Date: June 15, 1977

MEMORANDUM

FOR ACTION:	FOR INFORMATION:
Mrs. Carter	

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Trial Policy on Handcrafted Gifts

6/28 1st Lady not happy w/ memo

Marge Wick

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:	
TIME:	10:00 AM
DAY:	Friday
DATE:	June 17, 1977

ACTION REQUESTED:

X Your comments

Other:

STAFF RESPONSE:

___ I concur. ___ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE

WASHINGTON

June 14, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER HC

SUBJECT: Trial Policy on Handcrafted Gifts

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My recommendation is to approve Option 1.

THE PRESIDENT HAS SEEN.

Hugh
J

THE WHITE HOUSE

WASHINGTON

April 13, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER HC

SUBJECT: Gift Policy

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Jdb7/9

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

July 8, 1977

One dept - Schlesinger
Const = states initiate
Loss of gas tax revenue
Emergency auth → Gov's
Siting - Nuclear & OCS
Nuclear regulation
R & D
Publicize conservation - Rec
Monitor state success
Xport & flexibility

MEMORANDUM FOR: THE PRESIDENT

FROM: JACK WATSON Jack

SUBJECT: Briefing Materials for July 8-9 Meeting with the Governors on Energy

C

In preparation for your meeting with the Governors on Saturday, I am enclosing the following briefing materials:

- Overview of the White House-Governor's Conference on Energy
- Agenda
- List of Participants
- Some Suggested Talking Points for You

I am also enclosing a draft copy of the briefing book we are providing to the Governors and other participants. Final bound versions are being printed. Your overview paper highlights the key issues. In addition, I shall give you brief summaries of Friday night's discussions at 8:00 a.m. on Saturday for your quick review. I do not think it is necessary for you to study the Governors' briefing book and give it to you mainly to let you know what materials they will have.

cc: The Vice President

HOUSE ENERGY CONFERENCE
WITH GOVERNORS

OVERVIEW OF WHITE HOUSE-GOVERNORS' CONFERENCE ON ENERGY

July 8-9, 1977

The White House meeting with the Governors is designed to be a working session at which problems involving State-Federal relations in implementing national energy policies are discussed. The principal participants include about 44 governors and the affected Cabinet officers, as well as the President.

The meeting consists of two sessions:

Friday evening dinner and discussion

After an introduction and general discussion led by Jim Schlesinger and Governors Askew and Carroll, the Governors and Federal officials will discuss the seven major agenda topics (described below). Seating at each table of principals is arranged to facilitate such discussion.

Saturday morning plenary with the President

The results of Friday night's individual discussions will be presented to the whole group by the discussion leader for each topic, usually the lead Governor at each table. A general discussion of each topic will follow.

NOTE: Brief summaries of the individual Friday night discussions will be prepared by the staff and available for the President early Saturday morning, prior to the plenary session.

SUMMARIES OF THE ISSUES

States' Role in National Energy Policy

Although it will not be addressed in the same manner as the other six topics, the Governors would like to discuss how intergovernmental relations will be handled in the new Department of Energy. They are concerned with who the focal point will be; what procedures will be used to ensure that their input will be considered in the process before decisions are made; and the division of responsibilities between field offices and headquarters.

CONSERVATION

The national energy conservation strategy includes a number of initiatives which require major State implementation efforts. Several different specific problems areas have been identified:

The State Roles in the National Conservation Effort:

Given their implementation role, the States would like more advanced input in the Federal energy planning and decision-making process, as well as consolidation and flexibility in ongoing grant programs, to tailor initiatives to local needs. They also seek adequate Federal assistance to do the job.

Conservation-Public Education:

Although there is some dissenting opinion, most observers believe a concerted public education program is needed for the general public, as well as incorporating conservation into formal education. A State-Federal Task Force to prepare a detailed program is suggested.

Enforcement of the 55 MPH Speed Limit:

While the energy savings from enforcement of the 55 MPH limit are important, it is an unpopular law. The enforcement burden falls on the States who would like more support from the Federal Government and others.

Solar Energy for Federal-State Concerns:

A number of issues which arise in the wide-spread introduction of solar energy involves States. These include consumer protecton against fraud; the need for standards; property taxes on the solar investment which could offset the benefits; interface with utilities; solar access rights and aesthetic covenants.

IMPACT OF ENERGY CONSERVATION INITIATIVES IN TRANSPORTATION ON HIGHWAY TAX REVENUES

The States and the Federal Government use the motor fuel tax, which is based on the quantity of diesel oil and gasoline consumed, to finance basic national highway needs and, to some extent, other transportation needs as well. The national goals for reducing gasoline consumption in the 1980's will reduce the revenues from the motor fuel tax, and thus impair funding for repair and maintenance of the existing highway system. It can also affect funding for mass transit. The issue is where to get the replacement revenues--from higher state motor fuel taxes or from Federal revenues. An additional question is how resolution of this issue can be related to an overall energy-transportation policy.

EMERGENCY PREPAREDNESS

The most immediate energy problem facing the nation is the potential for natural gas shortages and coal strikes next winter. We do not have specific standby plans to deal with these emergencies. The issue here is one of gathering the facts as quickly as possible and then working with the States to develop mutually acceptable plans. A Federal Task Force to develop such plans by October 1, 1977, has just been established.

COAL DEVELOPMENT--PRODUCTIVITY AND TRANSPORTATION

The National Energy Plan calls for significant increases in coal production and use. While the most serious limits to date have been on the demand side, there are concerns that the problems with declining productivity and the adequacy of coal transportation will limit our ability to provide enough coal. The decline in productivity involves a variety of health, safety, personnel and social problems. The transportation problems involve the financial and physical health of the railroads, coal slurry pipelines and highways used for hauling coal.

ENERGY IMPACT ASSISTANCE

Large energy resource development and transportation projects, especially in previously undeveloped areas, cause serious social, economic and environmental impacts for people and public facilities in nearby communities and beyond. Although there is a variety of existing Federal and State programs and policies which might be used to deal with some of these impacts, the communities involved perceive serious problems in working with the existing mechanisms. Revenues from development should probably pay for these impacts but there are problems of front-end money. A basic issue is whether existing programs can be redirected and coordinated to do the job or if new Federal programs and additional funds are needed.

OUTER CONTINENTAL SHELF

The OCS lands contain some of the more promising prospects for future domestic oil and gas, but past development has raised a number of problems between the Federal Government and the coastal States. The Administration is supporting new OCS legislation which is responsive to the desire of the States to participate in the planning of lease sales and which will allow adequate time to accommodate coastal zone concerns. Specific issues of concern to the States involve the decision process itself, financial assistance to the States and the Federal organizations to deal with OCS issues.

We also expect the Governors to raise a number of questions about the National Energy Plan which are not on the agenda. These would include:

1) Use of revenues from new energy taxes;

2) Natural gas pricing/deregulation;

3) Problems implementing coal conversion program;

4) Impacts of gas guzzler tax on auto industry.

AGENDA

THE WHITE HOUSE

WASHINGTON

AGENDA

FRIDAY, July 8, 1977

4:30 p.m.	Governors and staff receive briefing books at NGC headquarters
6:00 p.m.	Governors and staff depart NGC headquarters in buses and go to Southwest Gate, White House
6:25 p.m.	Governors, staff and Federal officials enter through South Portico and go to East Dining Room
6:30 p.m.	Jack Watson convenes the President's Energy Meeting with the Governors Jim Schlesinger briefs the Governors Governor Carroll comments on States' Role in National Energy Policy Discussion
9:00 p.m.	Governor Askew calls the meeting to order Governor Carroll chairs the Issue Discussion Session --introduction of each lead Governor --statement of the problem --comments and discussion Governor Carroll continues for each of the six issues When discussions are complete, buses will be available for transportation to hotels

SATURDAY, July 9, 1977

8:15 a.m.	Governors and their staff go to Pennsylvania Avenue entrance of the Old Executive Office Building for clearance into Room 450 Coffee and doughnuts available in Room 450
8:45 a.m.	Governor Askew convenes the session to review key issues
9:30 a.m.	The President and Vice President arrive for discussion of the Issues Each lead Governor reports on Friday's discussions -- questions and comments
11:15 a.m.	Open discussion and summary remarks by the President
11:30 a.m.	Governors Askew and Carroll and Administration officials brief the press in the White House Press Room
Noon	Box lunches served in 450 EOB
12:30 p.m.	Staff continue Issue Discussions

ISSUE	ROOM	STAFF LEADERS
Conservation	308 EOB	John Millhone, Minnesota
Transportation Financing	263 EOB	Thomas Moreland, Georgia
Emergency Preparedness	160 EOB	Rodson Riggs, Iowa
Coal Utilization	305 EOB	Tom Goodwin, West Virginia
Impact Assistance	208 EOB	Jim Monaghan, Colorado
OCS Leasing Policy	248 EOB	Mike Hutsell, Texas

END OF CONFERENCE

* * * * * * * * *

12:30 p.m.	Opportunities for briefings by	
	Secretary Califano	Room 450
	Secretary Adams	Room 474

PARTICIPANTS

Governor Reubin O'D. Askew (Florida)
Governor Julian Carroll (Kentucky)

James Schlesinger, Assistant to the President
Jack Watson, Assistant to the President
Alvin Alm, Energy Policy and Planning Staff
Eliot Cutler, Associate Director, Natural Resources, Energy and Science, OMB
Gail Harrison, Vice President's Staff

Steve Farber, Executive Director, National Governors' Conference
C. Frank Harcher, Assistant to Governor Carroll
Ed Helminski, National Governor's Conference

Energy Conservation

S. David Freeman (Energy Policy and Planning Staff)
Rudy Perpich (Gov., Minn.)
Ella Grasso (Gov., Conn.)
George Ariyoshi (Gov., Hi.)
Michael Dukakis (Gov., Mass.)
Joseph Teasdale (Gov., Mo.)
James Hunt (Gov., N.C.)
Carlos Romero Barcelo (Gov., P.R.)
John Millhone (Gov. Staff)
Hazel Rollins (FEA)

Transportation Financing

Brock Adams, Secretary of Transportation
George Busbee (Gov., Ga.)
George Wallace (Gov., Ala.)
Raul Castro (Gov., Ariz.)
David Pryor (Gov., Ark.)
Robert Bennett (Gov., Kan.)
Richard Snelling (Gov., Vt.)
Dixy Lee Ray (Gov., Wash.)
William Morrill (Energy Policy and Planning Staff)
Thomas Moreland (Gov. Staff)

Emergency Preparedness

John O'Leary, Administrator, FEA
Robert Ray (Gov., Iowa)
James Longley (Gov., Me.)
J. James Exon (Gov., Neb.)
Mike O'Callaghan (Gov., Nev.)
James Rhodes (Gov., Ohio)
David Boren (Gov., Okl.)
James Edwards (Gov., S.C.)
Frederick Weinhold, (Energy Policy and Planning Staff)
Rodson Riggs, (Gov., Staff)

Coal Utilization

Ray Marshall, Secretary of Labor
Leslie Goldman (Asst. Adm., FEA)
John Rockefeller IV (Gov., W. Va.)
Hugh Carey (Gov., N.Y.)
Milton Shapp (Gov., Pa.)
Ray Blanton (Gov., Tenn.)
Mills Godwin (Gov., Va.)
Kathy Fletcher (Domestic Council)
Tom Goodwin (Gov. Staff)
Bruce Kirschenbaum (White House)

Impact Assistance

Juanita Kreps, Secretary of Commerce
Richard Lamm (Gov., Col.)
Blair Lee (Act. Gov., Md.)
Thomas Judge (Gov., Mont.)
Arthur Link (Gov., N.D.)
Ed Herschler (Gov., Wy.)
David Rubenstein (Domestic Council)
Joellyn Murphy (Dept. of Commerce)
Jim Monaghan (Gov. Staff)
Frank Pagnotta (Energy Policy and Planning Staff)

OCS Leasing

Cecil Andrus, Secretary of Interior
Jay S. Hammond (Gov., Alaska)
Pierre du Pont IV (Gov., Del.)
Edwin Edwards (Gov., La.)
Cliff Finch (Gov., Miss.)
Meldrim Thomson (Gov., N.H.)
Brendan Byrne (Gov., N.J.)
J. Joseph Garrahy (Gov., R.I.)
Kitty Schirmer (Domestic Council)
W. I. Palmer (Gov. Staff)

TALKING POINTS

SUGGESTED TALKING POINTS

I. The National Energy Plan includes a number of programs which, because they are national in character, must be carried out by the federal government, e.g., building a strategic oil stockpile; adopting mandatory standards and taxes on automobiles to improve fuel economy; establishing price controls on oil and natural gas sold throughout the United States.

II. In order for a national energy program to be effective, however, it is essential for the state and local governments to play significant, leading roles. For example, there are some programs which can really only be carried out by state and local governments - e.g., urban transportation plans; power plant siting; allocation of locally available energy in emergencies; enforcing the 55 m.p.h. speed limit.

III. There are other areas which require a federal/ state partnership, and these are the areas on which we have focused yesterday and today - e.g., coping with energy shortages; energy conservation; impact assistance; outer continental shelf oil leasing; financing the nation's highway and public transportation systems; removing obstacles to solar power.

One of my main hopes for this meeting is that it will serve as a beginning of an active and creative, working, state/ federal partnership on energy in the crucial years ahead.

IV. I am keenly aware that some state governments are ahead of the federal government in organizing their energy programs and in dealing with energy problems. There is no question in my mind that the federal government has a great deal to learn from the states in forging workable and realistic plans.

V. We must guard against the tendency to consider the United States as a homogeneous unit in terms of its energy uses and energy resources.

- There must be more recognition of the fundamental differences in growth rates, climate, and energy costs of the various regions of our country.

- An accurate assessment of needs and potential energy savings and resources by each state (already done by some states) will make both local and national planning more effective.

- We must avoid distribution problems that can leave one area of the country with an acute shortage while another has an oversupply of a needed fuel.

VI. On the supply side, federal research and development has traditionally tended to emphasize large-scale supply options that could supply most of the nation's needs.

- We need to give greater attention to small-scale resources that can be important supplies for local consumption - e.g., urban wastes; organic wastes in feedlots; geothermal energy; solar, wind, and other local energy resources.

- These resources might each supply only one or two percent of the total national need, but they could make a significant difference in specific communities. Added together, they could make a sizeable contribution to the nation's need and could make the difference between success and failure for the energy program.

Save on fertilizer

VII.

- I need your help, not only in shaping the federal government's energy conservation and research and development programs, but in consolidating the gains already made by current programs in the states.

- I need your help in keeping the federal government sensitive to regional, state and local concerns and in helping us address those concerns fairly and effectively.

PRESS CLIPPING - FYI

Carter, governors to talk energy

7/7/77 By Clayton Jones
Staff correspondent of
The Christian Science Monitor

Washington

Unable as yet to rally Congress behind most of his energy package, President Carter meets with the nation's governors July 9 to measure the impact of his proposed solutions for fuel waste and scarcity.

The local impact of Mr. Carter's effort to manage the energy "crisis" is exactly what worries the states' chief executives who have called for this meeting with the President.

The governors' representatives in Washington say that the meeting will not be a pep talk to help the President with a recalcitrant Congress. If that occurs "we'll get governors walking out," warns an official sponsoring the conference.

Some governors find new federal conservation programs unfit for their particular states. Others wish to avoid boom-and-bust development of coal or other resources. All expect some financial assistance to replace lost gas-tax revenues, as less gasoline is consumed.

As in Congress, regional interests poke through in complaints about the administration's approach: Energy producing states want more deregulation and more control over pollution standards. Consuming states, especially in the Northeast, look to fuel rebates, funds for mass transit, and regulation of prices, notably on natural gas and electricity.

James Schlesinger, the President's energy chief, has set up a task force of local officials to work out how much the federal government should pay out to local communities hit hard by energy shifts.

About half the states now have energy offices while their legislatures work out how to encourage energy-saving and use of alternative energies, such as solar.

Here is a coast-to-coast analysis of the governors' concerns, as reported from Monitor regional bureaus:

President faces governors on energy

Among governors President Carter may hear from at White House energy conference (clockwise from lower left): James R. Thompson of Illinois, Edwin W. Edwards of Louisiana, Hugh L. Carey of New York, Rudy Perpich of Minnesota, Michael S. Dukakis of Massachusetts, Richard D. Lamm of Colorado, Richard F. Kneip of South Dakota, and Julian Carroll of Kentucky.

East

By Lynde McCormick
Staff writer of
The Christian Science Monitor

Boston

Assuring their states coal and energy prices and supplies equal with those of the rest of the country will be on the minds of Northeastern governors when they meet with President Carter.

The President can probably count on reasonably strong Northeast support for his energy plan, since most of the region's governors have given their conditional approvals of the program.

The Northeast traditionally pays the highest prices for its fuel supplies, since it has fewer energy resources than other regions.

"While the problem of energy is federal in scope," says a spokesman for Massachusetts Gov. Michael S. Dukakis (D), "states can effectively participate by implementing federal dollars and programs where the needs are greatest."

Massachusetts and Connecticut, will probably protest federal orders for utility conversion from oil to coal as impractical and far more expensive than the federal government has calculated.

"We have made our contribution toward easing dependence on foreign oil in our push for nuclear plants," says Connecticut energy commissioner Lynn Brooks, "and it really doesn't make much sense for us to take a step backwards and convert to coal."

The governors say they will also push for a rebate to northeastern consumers from Mr. Carter's proposed tax on home heating oil. The tax would bring heating oil prices for the rest of the country up to the level already paid by consumers in this region and would boost prices paid here still higher.

Governors from Eastern coastal states, particularly New York and Massachusetts, say they will lobby hard for some state-level participation in setting offshore drilling regulations. They also want federal help, but not direction, in coping with onshore impacts of offshore oil and gas development.

The Coalition of Northeastern Governors, headed by New York Gov. Hugh Carey, has already put together an energy plan which they think will meet regional needs. The most important part of that plan, says a Carey spokesman, is the proposed Energy Development Corporation for the Northeast, which would serve as a conduit for relaying regional energy needs to the federal government and help shape federal programs to the area's particular problems. The spokesman said Mr. Carey hopes to get President Carter's support for the corporation while at the energy meetings.

South

By Gary Thatcher
Staff correspondent of
The Christian Science Monitor

Atlanta

As Mr. Carter's fellow Southerners converge on Washington for the President's meeting with state governors, their moods range from borderline hostility to polite, but decidedly unenthusiastic, support for his energy program.

The politics of the energy-producing Southern states are deeply influenced by the oil and gas industry, businesses which have not been euphoric about the Carter administration.

The energy-consuming Southern states, which are trying to attract more business and industry, need to be able to provide power for new factories and office buildings. The Carter energy package, with its heavy reliance on conservation, offers them faint assurance that future energy needs will be met.

If the administration plans to test Southern political waters this weekend, it is likely to find them lukewarm at best – and perhaps even downright chilly.

The governors of the petroleum-producing states – Dolph Briscoe of Texas, Edwin W. Edwards of Louisiana, and David L. Boren of Oklahoma – are still annoyed that Mr. Carter did not opt for deregulation of domestic natural gas and oil prices. Although they have opposed the President on Capitol Hill, they may be somewhat reserved this weekend. As one governor's aide explained: "It's too late to change the President's mind."

This same conviction – that pleas to either the President or his top advisers will make little difference – is held by a number of Southern governors. They question whether this weekend's confab will amount to more than "window dressing."

Despite such skepticism, a few Southern governors plan to use the gathering to "hammer home" their displeasure with the administration.

Although his aides say South Carolina's Republican Gov. James B. Edwards is attending "mainly to listen," they say he might end up arguing the case for more nuclear power generation. He particularly wants the administration to permit start-up of nuclear fuel reprocessing at a plant near Barnwell, South Carolina. Mr. Carter has opposed opening the facility on grounds that it could produce plutonium, from which nuclear weapons can be made.

Midwest

By John D. Moorhead
Staff correspondent of
The Christian Science Monitor

Chicago

Governors who trek from the U.S. midlands to Washington this weekend for a White House parley on energy are likely to present a united front on only one issue – having their say in policymaking.

"When we are invited to share in discussions of types of programs, we really want to participate," says North Dakota Gov. Arthur A. Link. "Any energy conservation program must have the support of the states to succeed."

From then on, however, each state has its own priority list. Here are some of the key issues individual governors will want to talk about:

- Minnesota – Gov. Rudy Perpich will chair a conference session on energy conservation. John Millhone, director of the Minnesota Energy Agency, says the state's delegation will urge President Carter to heed what states are already doing in energy conservation before launching new programs. "There is a great deal of activity on the state level," says Mr. Millhone.

- Kentucky – Along with chairing a session on relations between the states and the federal government, Gov. Julian Carroll and aides will pursue their strong interest in strip-mining legislation. (A federal strip-mining law has just cleared a congressional conference committee and may be signed into law within the next two to three weeks.)

- Oklahoma – Gov. David Boren will argue for deregulation of natural gas. "The Governor would prefer total deregulation but understands the political realities," comments spokesman Rob Pyron. Mr. Boren favors a phased deregulation that would apply to new discoveries and contract renewals.

- Indiana – State officials would like to see more incentives for energy development in the President's plan. "We don't believe that incentives for oil and gas production are sufficient to maintain existing levels of production," says Bill Watt of Gov. Otis Bowen's staff.

- Illinois – Gov. James Thompson notes that gasoline conservation will result in lost state revenues from motor fuel taxes. He made a quick trip to Washington earlier this week to urge that some of the proceeds from a proposed well-head tax on petroleum production be rebated to the states to compensate for lost gas-tax revenue – money now used to build roads and bridges.

West

By David F. Salisbury
Staff correspondent of
The Christian Science Monitor

Los Angeles

Governors from Western states heading to Washington to discuss the nation's energy future with President Carter carry portfolios stuffed with a wide spectrum of concerns.

The coal-rich states of Montana, Wyoming, Colorado, New Mexico, and Utah are worried about the boom towns that rapid coal development has already begun creating.

"In the past, Colorado has gone through disastrous boom and bust cycles with gold and silver mining. We are not interested in seeing that cycle repeated in the coal industry," says Colorado Gov. Richard D. Lamm.

These states want to plan for and control growth. The question of who will pay for schools, utilities, roads, libraries, and similar services as towns and cities grow is a major issue.

Most of these states already rely heavily on coal for electric power, so President Carter's efforts to promote conversion to "king coal" does not have much impact on them. The exception is New Mexico, a major producer of natural gas.

But conversion to coal also presents a particular problem in California, which gets 69 percent of its electricity from oil. Besides the expense of the changeover, Californians are concerned that coal burning in certain areas will add to an already infamous air pollution problem. So the state is lobbying for the right to come up with their own conversion plan. They see the President's measures as pushing them toward nuclear energy.

The recent start-up of the Alaskan pipeline poses a different type of difficulty for Western coastal states. They may be faced with a glut of crude oil of a quality which does not match their needs.

"We are concerned that the President's proposals to treat Alaskan oil as if it were foreign rather than domestic will lead to price cutting and make it more difficult for us to develop our own energy resources," says Robert Shin[illegible] of the California Energy Commission.

Oregon, unlike California, has already begun the conversion to coal and nuclear energy. Of all the Western states, Oregon seems the least affected by the President's proposals. It has already adopted a number of elements in the Carter plan.

But Oregon, as well as all the other Western states, would like to see new initiatives in mass transit.

Only one major Western city, San Francisco, has a subway. Many here feel that the federal government should subsidize mass transit as heavily as it did highway building in time past. Otherwise it will be impossible for the states and cities to provide transportation alternatives to the automobile.